

THE KROGER CO.
ANNUAL
REPORT
1949





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JOSEPH BAPPERT, *Vice-President*

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ROGER B. CONANT, *Assistant Treasurer*

BRYAN J. WEBER, *Assistant Treasurer*

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JOHN H. SADLER, *Secretary*

GEORGE W. ROSE, *Assistant Secretary*

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Vice-President

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Chairman of the Board

STANLEY M. ROWE, *Cincinnati*
President, The Shepard Elevator Co.

JOHN H. SADLER
Secretary

DONALD M. WOOD, *Chicago*
Partner, Childs & Wood

PRESIDENT'S LETTER

The Kroger Co. earned \$13,636,564, or \$7.42 per share in 1949. Earnings, before reserves, were \$6.43 per share in 1948 and \$6.59 per share in 1947. Management saw no necessity for establishing reserves in 1949. During 1949 the company paid dividends of \$3.50 per share.

Sales for the fifty-two week 1949 fiscal year were \$807,739,440, an average of \$15,533,451 per week. Average weekly sales during the fifty-three week 1948 fiscal year were \$15,578,647, for a total of \$825,668,323. During 1949, average weekly tonnage movement increased slightly over 1948 and price levels were generally somewhat lower.

Inventories at the year-end were \$64,380,938, including manufacturing inventory. Retail inventories were 23 days' supply, the same as in 1948. Continued emphasis will be placed on rapid turnover of inventory.

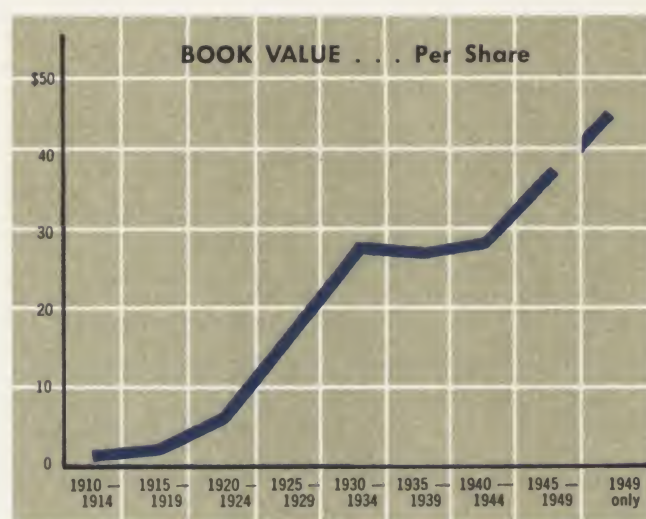
Our improved cash position enabled us to pay all bank loans prior to the close of 1949 operations.

Kroger opened one hundred and ninety-five new, relocated and remodeled stores in 1949 at a total expenditure for store leasehold improvements, fixtures and equipment of \$8,145,013. This stores improvement program will be continued in 1950.

Pictures of typical new Kroger store interiors appear in this report. The difference between these modern stores and the grocery store of ten years ago is strikingly illustrated by installation costs which are now approximately \$50,000 per store as compared to \$7,000 in 1939. This increase has been brought about not only by higher price levels, but also because today's stores are larger and better equipped, particularly as to refrigeration equipment.

Prior to the war, your company was able to pay out most of its earnings in dividends and still finance its stores improvement program. For the last several years, the accelerated program and higher installation costs have necessitated using a larger portion of earnings for this purpose. This reinvestment of retained earnings has enabled us to improve sales and current earnings and has increased the book value of Kroger stock from \$33.63 per share on December 28, 1946, to \$44.64 per share on December 31, 1949.

Warehouse additions were completed at Carbondale and Peoria, Illinois, and Roanoke, Virginia. The first is company owned, the latter two are leased. A new company owned warehouse at Madison, Wisconsin, was partially occupied in December and is scheduled for complete occupancy in February, 1950. A contract was executed in December for the construction of a



warehouse at Atlanta, Georgia. Capital expenditures for warehouse construction and equipment in 1949 were \$1,851,170.

Additions to and replacements for our fleet of trucks and trailers during 1949 cost \$898,079. Substantial operating savings are being accomplished with this equipment. Additional purchases of transportation equipment will be made in 1950. \$935,681 was expended during the year on replacement and modernization of our manufacturing facilities and \$205,687 on miscellaneous projects. In all, capital expenditures in 1949 were \$12,035,630. Depreciation and amortization totaled \$5,804,058.

The Employees' Retirement Program has been amended effective with the beginning of 1950. Rates per year of participating service have been increased from $1\frac{1}{2}\%$ to $\frac{3}{4}\%$ of average annual earnings under \$3,000 and from 1% to $1\frac{1}{2}\%$ above \$3,000; service eligibility starts with age 25 instead of age 30; and the minimum retirement income has been increased from \$15 to \$30 per period, and the maximum from \$5,000 to \$10,000 per year.



From time to time in past years, the company has created reserves out of earnings to provide for future inventory losses due to price declines and for other contingencies. Certain of the contingencies for which reserves were established no longer exist. Declines in food prices may at any time result in inventory losses. When and if such losses occur we shall charge them to current income. Accordingly, in the opinion of management, it is no longer necessary

to segregate a portion of earnings as "Accumulated earnings appropriated for contingencies." Therefore, effective with the end of 1949, we are consolidating all "Accumulated earnings" into one account.

Chester F. Kroger, who was the son of B. H. Kroger, founder of our company, died in February, 1949. He served as a director for sixteen years. We shall miss his advice and counsel. His place on the Board of Directors has been taken by Jacob E. Davis, a Vice-President since 1944. No other changes in the company's senior management occurred during the year.

Forecasts of general business conditions for the coming year are favorable. Favorable business conditions usually mean a good year for Kroger. In any event, the Kroger team will do its utmost to make a good showing in 1950.

Respectfully submitted,

Joseph B. Hall

President

February 10, 1950

THE MODERN KROGER SELF-SERVICE STORE



THE NEW MADISON, WISCONSIN WAREHOUSE





THE KRO

CONSOLIDATED BALANCE

ASSETS

| | |
|---|------------------|
| Cash | \$ 20,300,337 |
| Receivables | 2,778,590 |
| Inventories of merchandise, at lower of cost or market..... | 64,380,938 |
| Store and general supplies..... | 2,457,294 |
| Prepaid insurance, rent and taxes..... | <u>1,017,071</u> |

| | |
|---------------------------|------------|
| TOTAL CURRENT ASSETS..... | 90,934,230 |
|---------------------------|------------|

| | |
|--|-----------|
| Investment in subsidiary insurance company not consolidated, at cost..... | 1,776,361 |
|--|-----------|

| | |
|--------------------------------|--------|
| Stocks in other companies..... | 93,932 |
|--------------------------------|--------|

FIXED ASSETS:

| | |
|---------------------------------------|-------------------|
| Land, at cost or less..... | \$ 1,488,900 |
| Buildings, at cost or less..... | \$ 10,750,478 |
| Machinery and equipment, at cost..... | <u>44,350,038</u> |
| | 55,100,516 |

| | | | |
|--------------------------------------|-------------------|-------------------|-------------------|
| Less allowance for depreciation..... | <u>25,570,479</u> | <u>29,530,037</u> | <u>31,018,937</u> |
|--------------------------------------|-------------------|-------------------|-------------------|

| | |
|-------------------|----------------|
| TOTAL ASSETS..... | \$ 123,823,460 |
|-------------------|----------------|

GER CO.

SHEET—DECEMBER 31, 1949

LIABILITIES

| | |
|---|-------------------|
| Accounts payable | \$ 19,517,393 |
| Accrued expenses | 8,262,343 |
| Provision for Federal taxes, current and prior years..... | <u>11,747,515</u> |
| TOTAL CURRENT LIABILITIES..... | 39,527,251 |
| Employees' Benefit Fund..... | 2,262,664 |

CAPITAL

Preferred capital stock, par \$100:

| | | |
|---|---------------|-----------|
| First preferred, 6%, 279 shares outstanding..... | \$ 27,900 | |
| Second preferred, 7%, 174 shares outstanding..... | <u>17,400</u> | \$ 45,300 |

Common capital stock, without par value:

| | |
|-----------------------------------|------------|
| Authorized 3,000,000 shares | |
| Outstanding 1,836,589 shares..... | 33,671,735 |

| | | |
|----------------------------------|-------------------|-------------------|
| Accumulated earnings | <u>48,316,510</u> | <u>82,033,545</u> |
| TOTAL LIABILITIES & CAPITAL..... | | \$ 123,823,460 |

CONSOLIDATED STATEMENT OF INCOME

Fiscal Years Ended December 31, 1949 and January 1, 1949

| | 1949 (52 weeks) | 1948 (53 weeks) |
|-------------------------------------|--------------------|--------------------|
| Sales | \$ 807,739,440 | \$ 825,668,323 |
| Cost of sales..... | 681,541,888 | 709,428,461 |
| Operating and general expenses..... | 103,270,988 | 96,499,142 |
| Federal taxes on income..... | 9,290,000 | 7,929,600 |
| Total | <u>794,102,876</u> | <u>813,857,203</u> |
| Net income | \$ 13,636,564 | \$ 11,811,120 |

CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS

Fiscal Year Ended December 31, 1949

| | | |
|---|------------------|------------------|
| Accumulated earnings—January 2, 1949 | | |
| Unappropriated | | \$ 31,932,833 |
| Appropriated for contingencies..... | | <u>9,178,092</u> |
| Total | | 41,110,925 |
| Net income for 1949..... | \$ 13,636,564 | |
| Dividends declared—1949..... | <u>6,430,979</u> | <u>7,205,585</u> |
| Accumulated earnings—December 31, 1949..... | | \$ 48,316,510 |

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS,
THE KROGER CO.
CINCINNATI, OHIO

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary company as of December 31, 1949, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The investment in Manufacturers and Merchants Indemnity Company, an insurance company licensed under the laws of the State of Ohio, represents the entire preferred stock and 66 $\frac{2}{3}$ % of the common capital stock of that company, and is carried on the books at cost. At December 31, 1949, the company's equity in the net assets of the insurance company determined in accordance with the rules of the Commissioner of Insurance of the State of Ohio, amounted to \$1,606,484. Total assets of the insurance company, so determined amounted to \$6,306,404 consisting principally of cash, U. S. Government securities and other marketable securities aggregating \$5,589,302. Operations of the insurance company for the year 1949 resulted in a profit of \$34,646. No dividends were declared or paid by the insurance company during 1949.

In our opinion, the accompanying consolidated balance sheet and statements of income and accumulated earnings present fairly the consolidated financial position of The Kroger Co. and subsidiary company at December 31, 1949, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

LYBRAND, ROSS BROS. & MONTGOMERY

Certified Public Accountants

Cincinnati, Ohio
February 10, 1950

FINANCIAL AND OPERATING STATISTICS

| | 1949 | 1948 | 1947 | 1946 | 1945 |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| SALES | \$807,739,440 | \$825,668,323 | \$754,282,085 | \$573,760,884 | \$457,332,640 |
| NET INCOME | | | | | |
| Before Reserves | \$ 13,636,564 | \$ 11,811,120 | \$ 12,110,976 | \$ 10,865,780 | \$ 5,643,418 |
| After Reserves | 13,636,564 | 9,311,120 | 9,610,976 | 9,365,780 | 5,643,418 |
| NET INCOME PER SHARE | | | | | |
| Before Reserves | \$7.42 | \$6.43 | \$6.59 | \$5.91 | \$3.07 |
| After Reserves | 7.42 | 5.07 | 5.23 | 5.10 | 3.07 |
| DIVIDENDS PER SHARE..... | \$3.50 | \$3.00 | \$3.00 | \$2.50 | \$2.00 |
| NUMBER OF SHAREHOLDERS..... | 27,041 | 27,436 | 27,421 | 27,270 | 27,294 |
| NUMBER OF STORES..... | 2,190 | 2,349 | 2,516 | 2,611 | 2,730 |
| NUMBER OF EMPLOYEES..... | 26,161 | 24,969 | 23,953 | 22,349 | 19,389 |
| CASH | \$ 20,300,337 | \$ 19,745,290 | \$ 20,611,352 | \$ 14,584,867 | \$ 19,737,033 |
| MERCHANDISE INVENTORIES | 64,380,938 | 63,956,574 | 64,710,122 | 63,025,926 | 42,867,852 |
| NET WORKING CAPITAL..... | 51,406,979 | 50,295,776 | 50,434,510 | 46,347,007 | 39,335,661 |
| ACCUMULATED EARNINGS | \$ 48,316,510 | \$ 41,110,925 | \$ 34,807,927 | \$ 28,086,875 | \$ 21,814,086 |
| NET WORTH | 82,033,545 | 74,828,460 | 68,564,962 | 61,848,610 | 55,581,821 |
| NET WORTH PER SHARE..... | \$44.64 | \$40.72 | \$37.29 | \$33.63 | \$30.21 |

Kroger

LIVE BETTER FOR LESS

